

Housing Division:

The Housing Division established on July 1, 1995, consolidated housing programs within the Department of Commerce into one division. The division includes the Housing and Urban Development (HUD) HOME Investment Partnerships program, the HUD Tenant Based and Project Based Section 8 Housing programs, and the Board of Housing and its programs.

Housing Division responsibilities are mandated primarily in Title 2, Chapter 15; Title 90, Chapter 1, and Chapter 6, MCA; 24 CFR 91, and 92; 24 CFR 5, 792, 813, 887, 982, and 984; and the Governor's Executive Order 27-81.

Mission:

To provide mechanisms that enable Montanans to own or rent decent, safe, and sanitary housing that is within their financial capability.

Goals and Objectives:

In order to fulfill its mission the Housing Division is committed to achieving the following goals and objectives:

- Expand coordination of housing activities within the Housing Division, and with other housing providers, both private and governmental, to ensure maximum possible high quality development and maintenance of housing stock within the state, while minimizing use of resources and duplication of services.
- Continue and expand involvement of Housing Division personnel in the Housing Coordinating Team, an interagency group meeting to discuss issues related to housing and coordination of programs. Create standardized application documents for grant, loan and tax credit funds where possible. Combine applications workshops and use a "team" approach to setting up application workshops and required public hearings.
- Provide exemplary customer service by resolving questions for our customers rather than passing them along to another person or agency if at all possible.

Board of Housing:

The Montana Housing Act of 1975 created the Montana Board of Housing. The Board is an agency of the State and operates within the Department of Commerce for administrative purposes. Under the Housing Act the Board does not receive appropriations from the State's general fund and is completely self-supporting. Substantially all of the funds for the Board's operations and programs are provided by the private sector through the sale of tax-exempt bonds. The powers of the Board are vested in a seven member Board, appointed by the Governor, subject to the confirmation of the State Senate. The Board provides policy direction to the agency staff, authorizes bond issues, approves development financing and evaluates Board Housing Programs. These programs include the Regular Bond Homeownership Program, Special Set-Aside Homeownership Program, Multifamily Loan Programs, Low Income Housing Tax Credit Program, Housing Revolving Loan Fund and the Reverse Annuity Mortgage (RAM) Program.

The Board of Housing is funded by four enterprise funds with revenues derived from an administrative charge applied to projects and mortgages financed. Under the Montana Housing Act of 1975, the board does not receive any general fund, and is completely self-supporting.

Board of Housing Goals & Objectives:

- Continue automation of functions to improve operations. Continue to look at new ways of operating to improve efficiency and timeliness.
- Manage the assets of the Board in the most effective manner to enhance the ability to provide housing finance for lower income Montanans. Use any program earnings to recycle into new mortgages or call bonds.
- Continuously review programs to determine if they are meeting the needs of the population they are intended to serve. Continue to change program requirements based on current conditions.
- Increase education and outreach to the citizens of Montana and the Board's customers and servicers through public appearances, workshops, print media, and other means as appropriate.
- Provide training to lenders and realtors, as well as work with non-profits to provide rental counseling, homebuyer education, foreclosure prevention and post purchase education.
- Develop and implement creative methods of financing multifamily rental housing.
- Review opportunities for preservation of federally financed housing, and work with HUD on restructuring of multifamily properties when appropriate.
- Find ways aimed at lowering the cost of housing including The Plan Book and The Governor's House Program.
- Develop programs that meet the needs of populations that are not currently being served.
- Promote the use of the funds within the Housing Revolving Loan Account (HRLA).
- Use Internet web page to provide updated information to persons interested in Board activities and programs.

Housing Assistance Bureau:

The Housing Assistance Bureau consists of three programs; the U.S. Department of Housing and Urban Development (HUD) HOME Investment Partnerships (HOME) program; the HUD Project Based Section 8 Housing Contract Administration (PBS8) program; and the HUD Tenant Based Section 8 Housing Choice Vouchers and Moderate Rehabilitation programs Contract Administration (TBS8).

HOME Investment Partnerships Program (HOME):

HOME provides grant funds to eligible local government entities and Community Housing Development Organizations for assistance in financing new construction or rehabilitation of individual homes or rental units, tenant based rental assistance, and other eligible activities. Grants are awarded through a competitive process once each year. HOME also includes the president's American Dream Downpayment Initiative (ADDI) homeownership program. HOME staff also coordinates completion of the Montana Consolidated Plan, a five year planning document, with annual updates, required by the HUD in order to receive federal funds for many state programs.

The HOME program is funded in HB 2 by an annual categorical federal grant from HUD (100% federal funds). Beginning FY2006, organizations prequalified by the Montana HOME program can access funds for homebuyer assistance and homeowner rehabilitation on a noncompetitive basis (referred to as the Single-Family Pilot Program). Other eligible activities are distributed using a competitive process to successful local governments and Community Housing Development Organizations (CHDOs) with an allowed amount being held back at the state level to administer the program.

HOME Program Goals & Objectives / Performance Indicators:

- Continue restructuring and streamlining HOME Program grant application and administration policies and procedures to expand program accessibility for Montana's cities, towns, counties, and Community Housing Development Organizations (CHDOs).
- Continuously improve HOME project screening, technical assistance efforts, and project monitoring to ensure that high quality, long lasting affordable housing investments are made in Montana.
- Continue to provide technical assistance to rural portions of the state by HOME Program personnel and through technical assistance contracts.
- Continue cooperation with other affordable housing programs in the state to ensure the efficient use of scarce resources. Other affordable housing programs include the programs of the Montana Board of Housing, USDA-Rural Development, the Montana Homeownership Network and Montana Home Choice Coalition.

Consolidated Plan:

Continue to simplify and streamline annual updates facilitating continued federal participation and enhancing usability of the plan for the average citizen.

HOME Program Performance Indicators:

Indicator	Actual FY2005	Actual FY2006*	Estimated FY2007	Requested FY2008	Requested FY2009
Applications Reviewed (\$)					
Single-Family Pilot Program	-	1,987,454	2,129,194	2,193,070	2,258,862
Homebuyer Assistance	2,290,100	466,115	553,590	570,198	587,304
Homeowner Rehabilitation	275,500	-	106,460	109,654	112,943
New Construction - Rental	1,326,878	1,000,000	1,469,144	1,513,218	1,558,616
New Construction - Single Family	-	320,126	511,007	526,337	542,127
Acquisition Rehabilitation - Rental	2,185,990	-	1,192,349	1,228,120	1,264,963
Tenant Based Rental Assistance	366,060	-	170,336	175,446	180,709
Totals:	\$ 6,444,528	\$ 3,773,695	\$ 6,132,080	\$ 6,316,043	\$ 6,505,524
Grants Awarded (\$)					
Single-Family Pilot Program	-	1,987,454	2,129,194	2,193,070	2,258,862
Homebuyer Assistance	1,547,323	466,115	85,168	87,722	90,355
Homeowner Rehabilitation	183,667	-	-	-	-
New Construction - Rental	500,000	717,296	851,678	877,228	903,545
New Construction - Single Family	-	320,126	681,341	701,783	722,836
Acquisition Rehabilitation - Rental	1,397,320	-	383,255	394,753	406,595
Tenant Based Rental Assistance	297,552	-	127,752	131,584	135,531
Totals:	\$ 3,925,862	\$ 3,490,991	\$ 4,258,388	\$ 4,386,140	\$ 4,517,724

*As of July 2006. An additional \$483,917 in remaining CHDO set-aside is available in the second 2006 application round (deadline: August 1).

HUD Section 8 Housing:

Project Based Section 8 Contract Administration (PBS8):

The PBS8 Program is the HUD contract administrator for low-income rental properties HUD subsidizes throughout the state. The program provides rental assistance to projects at fixed

locations instead of the tenants. Landlords perform administrative tasks at the local level. The agency performs annual property reviews, oversees property management, and makes rent subsidy payments to owners. The agency earns fees from HUD under a performance-based contract for the tasks performed. The Project Based Program renews rent contracts to project owners as they expire. Contract Managers prepare special damage claims, annual rent increases, respond to emergencies, check compliance for fair housing and waiting lists, on-site management reviews, follow-up to physical inspections, review of management decisions, and budget assistance to local property owners. The program provides 4,268 units of rental housing in 100 projects, for low income and elderly families in the state.

Tenant Based Section 8 Contract Administration (TBS8):

TBS8 provides over 4,100 rent assisted units for very low income families (including elderly and disabled) to ensure they have decent, safe, and sanitary housing, using the HUD Section 8 Housing Choice Vouchers and Moderate Rehabilitation programs. The program operates on a first come, first serve basis statewide, through a network of field agencies the department contracts with for administration of local operations in the program. Leases are entered on the open rental market between tenants and private landlords. The program makes a subsidy payment to the property owner on behalf of the tenant. Payments are based on applicable unit rent limits and tenants generally pay 30% of their income towards rent and utilities.

Both Section 8 Housing programs are funded by two enterprise funds with revenues derived under HUD performance based Annual Contribution Contracts.

Section 8 Housing Goals & Objectives:

- Continue to provide and improve high quality Section 8 Housing Program services using contracted local field agencies to provide local contact for landlords and tenants enrolled in MDOC Section 8 Housing programs.
- Expand comprehensive centralized field agent training sessions to ensure field agent competency in all matters related to Section 8 Programs, and address problems associated with service delivery. Provide specialized training in areas identified as being high need for field agents and staff.
- Expand field review of local field agent operations to better monitor performance and to provide additional on-site training for field agents related to programmatic requirements, including inspections of rental units occupied by Section 8 tenants.
- Continue to support the Family Self Sufficiency Program to make FSS services available to clients on a full statewide basis, enabling more low-income clients to become independent of government assistance.
- Continue and expand contract administration of Section 8 project based contracts currently administered by HUD.
- Expand the provision of housing opportunities for low income Montanans by applying for additional assistance as it becomes available from federal sources.
- Expand the availability of low income Montanans to enter homeownership using the special provisions of the Housing Choice Voucher Homeownership program.

Board of Housing HB 576 Program Description:

The Montana Housing Act of 1975 created the Montana Board of Housing (Board). The Board is an agency of the State and operates within the Department of Commerce for administrative purposes. The powers of the Board are vested in a seven member board, appointed by the Governor, subject to the confirmation of the State Senate. The Board provides policy direction to the agency staff, authorizes bond issues, approves development financing and evaluates Board Housing Programs. These programs include the Homeownership Program, Multifamily Loan

Programs, Low Income Housing Tax Credit Program, Housing Revolving Loan Fund and the Reverse Annuity Mortgage (RAM) Program.

Customers include households that qualify for the Board's programs to either rent or buy their own home. The Board partners with brokers, realtors, banks, real estate lenders, builders, developers, contractors, non-profit housing providers and other governmental entities. Working together with its partners, the Board provides programs that allow a household to rent an apartment or house at an affordable rent. It allows a qualifying household to obtain a lower rate mortgage that will allow them to be able to afford a home that meets their household needs. It also allows qualifying senior households the opportunity to access the equity in their homes to help them afford to stay in their house through a reverse mortgage.

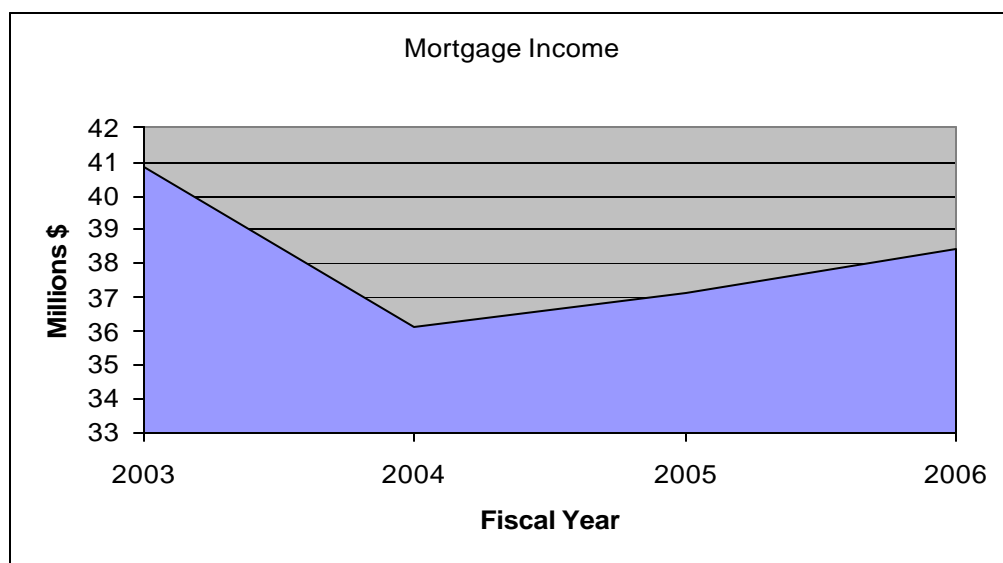
There has not been any significant program, service, or customer base change since the last session. The Board of Housing is primarily mandated in Title 2, Chapter 15; and Title 90, Chapter 1, and Chapter 6, MCA.

Overview of Board Financial Operations:

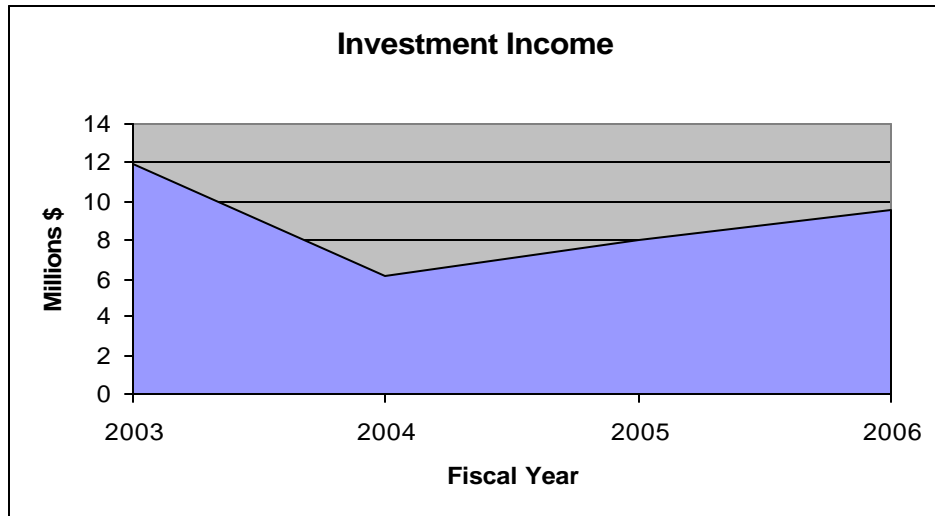
Under the Montana Housing Act of 1975, the Board does not receive any general fund money. The Board is completely self-supporting. Substantially all of the funds for the Board's programs and operations are provided by the private sector through the sale of tax-exempt bonds. The Board of Housing is funded by four enterprise funds with revenues derived from an administrative charge applied to projects and mortgages financed.

Revenue Description: Mortgage & Investment Income

About 98% of the Board's income is from Mortgage and Investment income. Mortgage Income is the interest people pay on Board loans used to purchase their homes and is limited by the Internal Revenue Service as a condition of using tax-free bonds as a financing source. Mortgage income is also controlled by the national financial markets which set both mortgage rates and bond financing rates. For example, Board Mortgage income (below) followed financial markets, decreasing until 2004 because national interest rates decreased. In response, people refinanced higher rate Board mortgages with lower rate mortgages and new Board mortgages also had lower rates. This decreased Mortgage Income. Starting in 2005, national interest rates began increasing and Board mortgage income increased.



Investment income comes from interest earned on investing reserves the Board is required to hold and bond and program moneys not yet used to buy mortgages. Investment Income (below) followed the same pattern, decreasing as interest rates decreased, and then increasing as interest rates increased.



Both future Mortgage Income and Investment Income for the Board depend on the interest rate environment which is determined by the national financial markets.

Other Income:

The Board charges the Board of Investments for managing its mortgage loans and for loan cancellations, extensions, or for reviewing certain loan applications.

Board of Housing revenues (accounting entities 06030, 06031, 06078, and 06079) are primarily recorded using the following SABHRS revenue codes:

	FY 2006	%
512033	\$ 519.11	0.001%
522017	\$ 24.00	0.000%
525130	\$ 31,780.00	0.069%
526062	\$ 283,794.80	0.617%
530014*	\$ (2,958,274.74)	-6.433%
530025	\$ 34,960.27	0.076%
530223	\$ (10,299.21)	-0.022%
531626	\$ (607.04)	-0.001%
531644	\$ 609.58	0.001%
538002	\$ (40,000.28)	-0.087%
538025	\$ 5,557.70	0.012%
538040	\$ (3,144.10)	-0.007%
538041	\$ 38,556,850.58	83.845%
538042	\$ 9,583,642.56	20.841%
538046	\$ 4,840.94	0.011%
554040	\$ 65,000.00	0.141%
584001	\$ 6,475.00	0.014%
584010	\$ 975.00	0.002%
593410	\$ 186,332.38	0.405%
599001	\$ 236,603.80	0.515%
Totals:	\$ 45,985,640.35	100.000%

* Investment Income includes Government Accounting Standards Board (GASB) market value adjustment. GASB 31 requires that long-term investments be valued at market and any changes since the previous year be added or subtracted from Investment Income. Since no actual gain or loss occurs, this adjustment artificially affects the Investment Income amount presented. For example, during 1998, the first year that GASB 31 was implemented, the Board recorded an unrealized gain of approximately \$2.8 million. In FY2006 the amount was unrealized loss of \$2.9 million. In any one year the difference depends on the market. If investments are sold on the valuation date we would have a realized gain or loss, however the Board holds long-term investments until maturity. At maturity, the investment pays off and there is no market gain or loss.

Rate Explanation:

Income Detail by Program:

The Board recovers its costs from charging application and compliance fees for the Low Income Tax Credit Program and from charging a spread on our loan programs. The Board draws funds for its budget from the amounts available within the Indentures. The amount of the approved budget, less any cash on hand, is withdrawn from the Indenture and is allocated among the various Indentures. Any income the Board earns is used to fund special programs that meet the needs of Montana families that are not being met by our regular programs. These funds are pledged to the bondholders.

Homeownership Charges:

According to state statute and, in some cases, the Internal Revenue Code, the Board is allowed to earn the amounts that are presented on the "Report on Internal Service and Enterprise

Funds". The Board earns the bulk of its income from the spread between the interest yield on the Single Family Mortgage loans and the yield on the bonds. The Board is allowed to earn 1 1/2% on Pre 1980 Single Family Programs and 1 1/8% on the Post 1980 Single Family Programs.

Financial institutions used to originate Single Family loans for the Board may charge two points, which they keep or originate loans with no points, at a slightly higher rate and have the loans purchased at 102%. Approximately 1% of the loans have 2 points charged. According to tax law, origination points must be included in the amount that the Board can earn. Operating expenses and servicing fees must be paid from the 1 1/8% that the Board is allowed to earn. Servicing fees are .375% of the mortgage principal balance. The Board does not always receive the full 1 1/8% or 1 1/2% spread. The spreads for the last several bond issues were as follows:

* 1996A	- 1.125%
* 1997A1	- 1.39063%
* 1997A2	- 1.08842%
* 1998A	- 1.10078%
* 1998B	- 1.04678%
* 1999A	- 1.11985%
* 2000A	- 1.10302%
* 2000B	- 1.11709%
* 2001A	- 1.11898%
* 2002A	- 1.12251%
* 2002B	- 1.09666%
* 2003A1	- 1.21126%
* 2003A2	- .07883%
* 2003B1	- 1.45392%
* 2003B2	- .51062%
* 2003C	- .83833%
* 2004A	- .82319%
* 2004B	- .49576%
* 2004C	- 1.01778%
* 2005A	- .89501%
* 2005RA	- 1.0336%
* 2005B	- .81353%
* 2006A	- .8008%

Operating expenses and servicer fees further reduce the amount of these earnings. The 1 1/8% or 1 1/2% that the Board can earn is based on certain assumptions at the time the bond issue is structured. One of the assumptions is that the loans will prepay at 100% of the historical FHA prepayment rate. If the loans actually prepay faster, the Board will not earn the initial spread that was calculated. The Board only earns this spread if the loans are held for the amount of time that is originally estimated. If the loans prepay early, the money is invested and then is used to redeem bonds. When the mortgages pay off, the Board has lost the ability to earn the spread between the mortgage yield and bond yield. Historically, prepayments on the majority of the loans have been over 100%, and we expect this trend to continue.

The Board also charges a cancellation fee of 1/2 of 1% of the loan amount reserved. Approximately 5% of loans reserved are canceled. This amount is included in the spread that the Board can earn. These fees are capitalized and are amortized as income over the life of the loans, as required by generally accepted accounting principles. Extension fees and late fees are also, occasionally, charged. The majority of these fees are capitalized and amortized over the life of the loans. The extension fees are 1/4 of 1% of the loan amount and the late fees are 1/2 of 1% of the loan amount. The amortization of these fees results in an average of approximately

\$250,000 of income per year. These fees are deposited with the trustees and are used to originate new mortgages.

Multifamily Charges:

Multifamily Programs can earn 1 1/2% spread between the mortgage yield and the bond yield. On the last several issues, the Board did not receive the full 1 1/2% spread. The spreads for the last three bond issues are as follows:

- * 1996A - .826%
- * 1998A - .28156572%
- * 1999A - 1.013963%

(Servicing fees and operating expenses further reduce the amount of this spread.)

Low Income Housing Tax Credit Charges:

The Board receives approximately \$2.1 million dollars of tax credit allocation, annually. The Board charges 4 1/2% of the amount of tax credit reserved. In the next biennium, reservation fee income is estimated to be approximately \$94,500 per year. The Board is also required to monitor the projects that receive tax credits to determine if the projects are in compliance with tax credit regulations. The Board charges \$25 per unit for compliance fees. The Board has approximately 4,500 units. Approximately \$112,500, annually, will be received during the biennium. Tax credit fees are charged to cover the operating expenses of the program.

Housing Revolving Loan Account Charges:

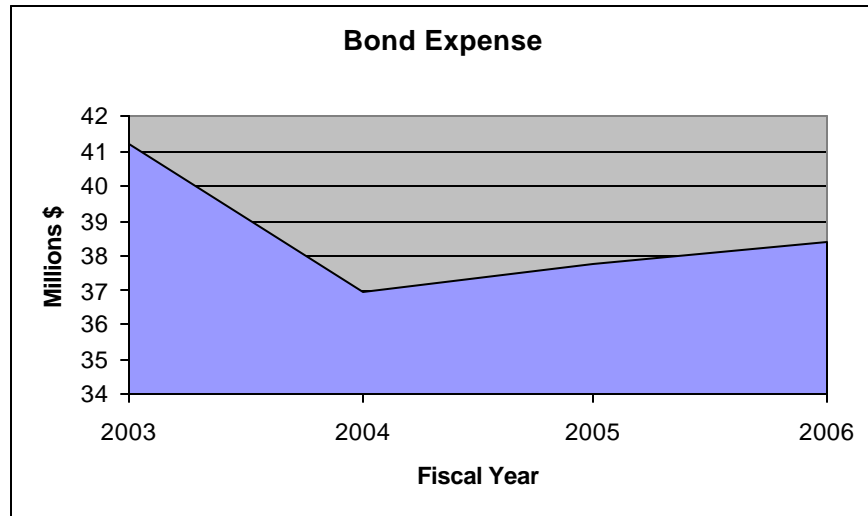
The 1999 Legislature established this fund to provide loans to projects providing affordable housing in Montana. Although the fund was established in 1999 it was not funded. The 2001 legislature added funding through a transfer of Section 8 reserve funds and an allocation of Temporary Assistance to Needy Families (TANF). The TANF funding is currently used to finance down payment and closing cost loans for homebuyers. The other funding is available for other types of housing loans that will typically need that last small piece of financing to make them feasible. The interest that will be charged on HRLA loan will range from 2% - 6%.

Reverse Annuity Mortgage Loans (RAM) Charges:

Under the RAM program, elderly homeowners can receive monthly payments, for 10 years, to assist them with their living expenses. The loans accrue interest at 5%. The principal and interest is not due until the borrower dies or sells their home. It is difficult to determine how much of the interest and principal will actually be received on these loans or when it will be received. These loans are not guaranteed or insured.

Expenses Description: Bond Debt, Loan Servicing and Operations

The Board issues (sells) bonds each year to purchase new mortgages. Once the bonds are sold, the Board must repay the bondholders by making interest and principal payments. The Board is required to use Mortgage and Investment Income to pay bondholders, buy mortgages or pay operating costs. Bond Debt payments are the Board's greatest expense, 88 % of total expenses. Bond Interest rates vary (below) and respond to the interest rate environment set by the national financial markets. As with the previous section, Board rates move with the market. When market rates increase, expenses for bond debt also increase.



The remaining 12 % of expenses are for Loan Servicing and Operations. As shown in the following table, greater than half of Servicing and Operations expenses pay for professional services to banks, mortgage companies and other professionals for issuing bonds, selling mortgages, collecting the monthly mortgage payments, legal services and paying bondholders. The remaining expenses pay for the Board's staff* and staff operations including purchasing and recording mortgage loans, recording repayments and prepayments, investing funds, issuing and redeeming bonds, operating all loan programs and bookkeeping for over 11,000 mortgages, 300 investment accounts, and 31 bond series.

	FY 2006	%
FTE	20.50	
Personal Services	\$ 978,777.38	2.226%
Operating Expenses	\$ 4,155,333.81	9.452%
Grants	\$ 247,404.54	0.563%
Debt Service	\$ 38,582,778.33	87.759%
Total:	\$ 43,964,294.06	100.000%

*The Board currently operates with a staff of 20.50 people in 20.50 Full Time Equivalent (FTE) positions. Fiscal Year (FY) 2006 Servicing and Operations expenses are for SABHRS Funds 06030, 06031, 06078, and 06079.

Working Capital Discussion:

Collection Of Mortgage Payments & Purchase Of Loans:

Each month the Board receives funds from the financial institutions that service the Board's Single Family and Multifamily loans. The funds include the amount of principal, interest, less servicing fees (.375%, .125% and .10% of the principal balance) that are due on the Board's loans. The Board's trustees collect the money. Twice monthly, the Board purchases loans from new bond proceeds, prepayments or other revenues.

The Board receives tax credit reservations fees when the tax credits are approved. These fees are deposited with the state treasurer and are used to cover expenses of the program.

Reservations fees on the Single Family and Multifamily Programs are deposited with the trustees when the approved loans are reserved. They are deposited in the program acquisition account and are used to originate new mortgages.

Payment of Bond Debt:

Principal and interest, on the Multifamily and Single Family Bond issues, is due on each February 1, June 1, August 1, and December 1. Scheduled Debt payments for 2007 are \$50,624,869; 2008 are \$52,049,419; and 2009 are \$52,819,204.

Investments:

The deposit of the initial bond proceeds, used for purchasing loans, is normally invested in a fixed-rate guaranteed investment contract. All debt service reserve funds and mortgage reserve funds that must be held as security for the bondholders are invested in long-term securities, repurchase agreements or guaranteed investment contracts. Under the Multifamily Program, the funds are invested to the next debt service date or to a loan purchase date.

Other Mortgage Purchases:

The Board purchases Reverse Annuity Mortgages (RAM). The RAM loans are not repaid until the borrower dies or sells their home. These amounts are assets of the Board and the interest is accrued monthly, but we may not receive the principal and interest repayments for many years.

The Board also purchases out of the Housing Revolving Loan Program. These loans can be due on sale or amortizing. These amounts are assets of the Board and the interest is accrued monthly.

Fund Equity and Reserved Fund Balance:

Net Assets/Restricted Net Assets:

As stated in the Board's financial statements, Note 1, Fund Accounting: Net Assets – Restricted for Bondholders represent bond program funds that are required to be used for program purposes as prescribed by individual bond indentures. The following are restrictions on the Restricted Net Assets: Special trust funds and accounts within the indenture are pledged as collateral for the bonds under the individual program indentures; Reserve requirements on cash and investments; Mortgage loans receivable are also pledged as security for holders of the bonds; Certain indentures require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture.

The Trust Indentures entered into by the Board requires all mortgages, and all moneys and investments within the indentures are legally restricted to uses provided for in the indentures and fund balance associated with the indentures is legally required to be reserved for those uses.

In addition to the legal requirements mentioned above, the Board commits funds to various projects and programs throughout the year. The Board has set aside over \$200 million of first mortgage funds for special programs. In FY 2006, the Board originated approximately \$ 28.5 million of loans under this program to households with an average income of \$ 28,200, which is below 60% of the median income of the state. As of the end of FY 2006, the Board had \$21,329,479 in outstanding Recycled Mortgage Program commitments.

The Board's budgeted monies (those projected to be needed for the fiscal year's operations) are drawn down from the indentures during the fiscal year. These funds are legally pledged to the trust indentures from which they were drawn and any associated fund balance is reserved for the program from which the budgeted funds were withdrawn.

Management Objectives Regarding Fund Balance:

The major component of the Board's Fund Balance (Retained Earnings) is its single-family program. The Board has been recycling repayments and prepayments of mortgages for several years. The Board has committed these funds to special programs, at rates that are in many cases below the average coupon on the bonds. The average income on the special programs is less than \$27,000, whereas the average income on the Board's regular bond programs is about \$38,000. The Board intends to continue these special programs as they serve Montana citizens the Board would not otherwise be able to serve.

Net income over and above bond debt service, operating costs, and servicing fees, is used to write down the rates on special programs or to fund programs such as the RAM Program for elderly. These programs cannot be funded from direct bond proceeds, as there is no repayment guarantee. In the Multifamily area, the Board intends to continue to leverage its multifamily funds into new multifamily loans through the revolving pool so that loans can be completed in a timely and efficient manner.

The Board is reviewed at the time of each bond issue by two rating agencies: Standard & Poor's, and Moody's Investor Services. In order to meet the cash flow tests, the Board must have sufficient assets, earnings, and liquidity, to meet all bond interest and principal expenses, as well as pay operating expenses. The Board just received an Aa1 from Moody's and an AA+ from Standard & Poor's on its largest indenture. The Board's rating reflects the rates the Board gets on its bonds, which is reflected in the mortgage rates passed on to first time home buyers in Montana.

Rate Explanation:

The Board recovers its costs from charging application and compliance fees for the Low Income Tax Credit Program and from charging a spread on our loan programs. The Board draws funds for its budget from the amounts available within the Indentures. The amount of the approved budget, less any cash on hand, is withdrawn from the Indenture and is allocated among the various Indentures. Any income the Board earns is used to fund special programs that meet the needs of Montana families that are not being met by our regular programs. These funds are pledged to the bondholders.

Section 8 Housing HB 576 Program Description:

Project Based Section 8 Contract Administration (PBS8):

The PBS8 Program is the HUD contract administrator for low-income rental properties HUD subsidizes throughout the state. The program provides rental assistance to projects at fixed locations instead of the tenants. Landlords perform administrative tasks at the local level. The agency performs annual property reviews, oversees property management, and makes rent subsidy payments to owners. The agency earns fees from HUD under a performance-based contract for the tasks performed. The Project Based Program renews rent contracts to project owners as they expire. Contract Managers prepare special damage claims, annual rent increases, respond to emergencies, check compliance for fair housing and waiting lists, on-site management reviews, follow-up to physical inspections, review of management decisions, and budget assistance to local property owners. The program provides 4,268 units of rental housing in 101 projects, for low income and elderly families in the state.

The Project Based Section 8 program is funded by enterprise accounting entity 06074 with revenues derived from a performance based Annual Contribution Contract with HUD. There are

no direct appropriations provided in HB 2; the Project Based Section 8 program is completely self-supporting.

Tenant Based Section 8 Contract Administration (TBS8):

TBS8 provides over 4,100 rent assisted units for very low income families (including elderly and disabled) to ensure they have decent, safe, and sanitary housing, using the HUD Section 8 Housing Choice Vouchers and Moderate Rehabilitation programs. The program operates on a first come, first serve basis statewide, through a network of field agencies the department contracts with for administration of local operations in the program. Leases are entered on the open rental market between tenants and private landlords. The program makes a subsidy payment to the property owner on behalf of the tenant. Payments are based on applicable unit rent limits and tenants generally pay 30% of their income towards rent and utilities.

The Tenant Based Section 8 program is funded by enterprise accounting entity 06075 with revenues derived from a performance based Annual Contribution Contract with HUD. There are no direct appropriations provided in HB 2; the Tenant Based Section 8 program is completely self-supporting.

The Section 8 Housing programs are primarily mandated in 24 CFR Parts 5, 8, 35, 792, 813, 880, 882, 883, 887, 888, 891, 903, 982, 984 and 985 of the Code of Federal Regulations Section 8 Housing authorization and the Governor's Executive Order 27-81 Authorization of Section 8 Housing.

Customers include the 8,421 Montana families that hold a Section 8 Voucher or live in a Section 8 Project Based unit. The majority of these families include the disabled or the elderly. Customers also include the 2,500 landlords that accept vouchers or own project based apartments.

There has not been any significant program, service, or customer base change since the last session; however the federal government has proposed maintaining the levels of funding for the Housing Choice Vouchers program with only a minor increase effectively allowing the program to serve fewer families with rising costs for rent and utilities.

Section 8 Housing HB 576 Revenues, Expenses, and Fund Equity:

Revenue Description:

Both Section 8 Housing programs are funded entirely by enterprise funds; Project Based Section 8 with accounting entity 06074; and Tenant Based Section 8 with accounting entity 06075. There are no direct appropriations provided in HB 2. Both funds revenues are derived from performance based Annual Contribution Contracts with HUD, and both programs are completely self-supporting.

Project Based Section 8 Housing revenues (accounting entity 06074) are primarily recorded in the following SABHRS revenue codes:

	FY 2006	%
512033	\$ 227.54	0.001%
530025	\$ 42,532.41	0.246%
531626	\$ (738.52)	-0.004%
531644	\$ 741.49	0.004%
538006	\$ 7,333.37	0.042%
594109	\$ 847,433.00	4.896%
594111	\$ 16,410,473.31	94.814%
Total:	\$ 17,308,002.60	100.000%

Tenant Based Section 8 Housing revenues (accounting entity 06075) are primarily recorded in the following SABHRS revenue codes:

	FY 2006	%
512033	\$ 23.20	0.000%
530025	\$ 134,176.23	0.723%
531626	\$ (2,329.80)	-0.013%
531644	\$ 2,339.16	0.013%
538006	\$ 5,732.71	0.031%
594110	\$ 65,478.61	0.353%
594112	\$ 16,479,003.77	88.785%
594113	\$ 61,212.34	0.330%
594116	\$ 125,008.72	0.674%
594117	\$ 124,228.56	0.669%
594118	\$ 139,482.64	0.751%
594119	\$ 242,412.20	1.306%
594120	\$ 57,828.46	0.312%
594121	\$ 106,465.64	0.574%
594122	\$ 87,515.06	0.472%
594124	\$ 105,398.70	0.568%
594125	\$ 209,069.28	1.126%
594126	\$ 270,005.20	1.455%
594127	\$ 92,136.68	0.496%
594128	\$ 255,468.80	1.376%
Total:	\$ 18,560,656.16	100.000%

Expense Description:

Major cost drivers for the Project Based Section 8 program, accounting entity 06074, can best be represented in the following table:

	FY 2006	%
FTE	7.00	
Personal Services	\$ 322,422.08	1.905%
Operating Expenses	\$ 189,138.06	1.118%
Benefits and Claims	\$ 16,410,483.31	96.977%
Total:	\$ 16,922,043.45	100.000%

Major cost drivers for the Tenant Based Section 8 program, accounting entity 06075, can best be represented in the following table:

	FY 2006	%
FTE	12.00	
Personal Services	\$ 500,762.17	2.748%
Operating Expenses	\$ 339,918.56	1.865%
Grants	\$ 1,394,854.62	7.654%
Benefits and Claims	\$ 15,988,955.09	87.733%
Total:	\$ 18,224,490.44	100.000%

Working Capital Discussion:

Revenues are generated in the Project Based Section 8 Contract Administration under a HUD performance based contract using 17 Incentive Based Performance Standards which are calculated by HUD monthly, quarterly, and annually. Revenues generated are required to be used for contract administration. Rental Assistance payments are made based on Contracts negotiated by the PBS8 staff and tenant income data, and are paid and reimbursed monthly by HUD, based on actual program benefits paid to owners.

Revenues for the TBS8 are generated at the rate of \$45.79 per unit for each rental unit under lease each month, effective January 1, 2006. Revenues are used to pay for contract administration of the program. HUD regulations do not allow the PHA to earn new reserve balances after 2003, and old reserve balances are committed to paying program administration costs only and HUD may require their use to pay rental subsidies in the future. Retained earnings are used to supplement interest earnings and older operating reserves in paying for contract administration costs that exceed current revenues. Rental subsidies are paid and reimbursed by HUD. The PHA is not allowed to retain any funds for other than the payment of rents under the program.

Fund Equity and Reserved Fund Balance:

Fund equity remaining in the accounts is reserved for use on the Section 8 Housing programs. This was enacted in HUD PIH Notices 2003-23 and 2004-07, and is also found in 24 CFR 982.152(b). Also see working capital discussion above.

Rate Explanation:

Both funds revenues are derived from competitively awarded performance based Annual Contribution Contracts with HUD, and both programs are completely self-supporting.

There is little uncertainty in forecasting major cost drivers and for the purposes of this analysis it is assumed the Section 8 programs workload and customer level will remain constant.

The administration side of the program does not currently make enough from HUD to fully fund administrative operations, so retained earnings, and interest on them are used to make up the difference between needed revenues and administration expenses for the program. It is anticipated that the retained earnings will continue to fund the program indefinitely, unless there are more negative changes upcoming from HUD. The retained earnings are limited to use for operation of the program by federal code.

The Project Based Section 8 Contract Administration is funded through a performance based contract with HUD, based on a 5 year renewable RFP. We are entering the seventh year, and expect HUD to extend our contract in future years, as we have obtained an outstanding review score in most years we have administered the program. Administrative costs are paid as a fixed percent of the HUD fair market rent, currently 2%, with a provision for another 1% awarded for superior performance, or 1% removed for failure to perform. The amounts received are based in 17 different Incentive Based Performance Standards, each of which is evaluated by HUD. Retained earnings are to be used for operations of this program. Funding for rents is paid by HUD, based on actual contracts negotiated between the department and the 107 individual owners of the projects, set up on a procedure dictated by HUD.

Non-typical and one time only expenses, if any, are subtracted from proposed budgets. The Project Based Section 8 program is authorized 7.00 FTE and the Tenant Based Section 8 program is authorized 12.00 FTE; for a total 19.00 FTE.